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SUBJECT: From Rural to Urban, Part 2: Qingyuan Villages Tap into Cities for Wealth

REFERENCE: A) Guangzhou 21192; B) Guangzhou 11684; C)

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(U) This document is sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: Qingyuan, Guangdong province's largest and fastest-growing prefecture, is riding a wave of industrialization that has brought rising incomes to its rural communities. Villages that used to live off their crops and government subsidies now rely on family members who work in cities and on the sale of their farmland for industrial development. Farming is no longer profitable and agricultural subsidies are largely nonexistent. Land prices are a source of great frustration for villagers, with many believing that the prices they get are too low and that corrupt local officials skim profits. Although Qingyuan's rural residents are doing fairly well because of urban employment, officials are likely concerned about their increasing dependency on urban jobs, goods, and services. And with the direct and indirect urbanization of Qingyuan's countryside comes the heightened expectations of an increasingly sophisticated rural population. End summary.

¶2. (U) Econoff and EconPolAsst recently visited Qingyuan prefecture, a predominantly rural area stretching from central to north Guangdong Province and lying outside of the Pearl River Delta (PRD). The southern reaches of Qingyuan, home to the majority of the population and industry, are only two hours from Guangzhou by bus. Qingcheng City, home to half a million people and located in southern Qingyuan, served as our base as we visited nearby factories and more distant villages. Reftel A explores the nature of Qingyuan's rapid industrialization and its long-term impact. This cable discusses the concerns of the rural population as they face this incoming tide of industry and urbanization.

What Do You Mean by "Rural"?

¶3. (U) The distinction between rural and urban in Qingyuan is becoming increasingly ambiguous. Residents of villages in Qingyuan's countryside no longer consider farming their primary source of income, but rather depend on money earned by family members working in cities. In some cases, only the young or old live in these villages, with the middle

generation working outside. Indeed, the first two farmers we spoke with had recently returned to their villages to farm after having worked as laborers in the Guangzhou area until they became too old to be employable. Villagers often told us that once a child completes middle school (chuzhong), at around the age of 16, they leave to find work in a city. In several villages that we visited, almost every family had a member working in a construction or factory job in Qingyuan or further afar in the PRD.

¶4. (U) Given the fact that much of Qingyuan's rural income now comes from the cities, official statistics can be misleading. The official per capita disposable income of Guangdong's rural residents grew 7.4% in 2005, to RMB 4,691 (USD 573). This is up 28% since 2000. (The urban per capita disposable income grew 8.4% in 2005 to RMB 14,770 [USD 1,804] -- up 51% over 2000.) It seems likely that much of this increase in rural income comes not from farming but rather from money derived from urban or semi-urban jobs. Indeed, many villagers described meager earnings from farming (see below).

¶5. (U) In addition to the heavy reliance of rural communities on urban employment, some of these villages are no longer what could be considered rural, having been swallowed by expanding cities. The edges of Qingyuan's cities are dotted with these once-rural villages -- small clusters of brick houses now surrounded by industrial parks and factories. These villages typically sell all of their farmland to the township government, which sells it to developers. The village holds on to an area just large enough for the residents' homes -- the building of which is largely financed with earnings from the land sales.

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Farming and Subsidies: Dwindling Sources of Income

¶6. (U) Farmers in Qingyuan have turned to urban jobs in part because farming no longer generates a sufficient income for their families and agricultural subsidies are less generous than before. If it were not for the influx of these industrial jobs, Qingyuan's rural population would no doubt be forced to send its family members farther away in search of income. Several farmers told us they literally lose money by farming: the cost of plowing (with rented machinery), harvesting (with hired labor), fertilizer, pesticide, and seed exceeds the amount they receive after sales. Even in a village surrounded by healthy orange trees, farmers said they do not earn enough money to live on and depend mainly on outside income. It was no surprise, then, that we occasionally saw untended, overgrown fields.

¶7. (U) Agricultural subsidies are no longer a significant part of the income for Qingyuan's rural families. The majority of farmers claimed they receive no subsidies whatsoever. In some cases, farmers receive a subsidy for growing rice of RMB 7 (USD 0.88) for each mu (0.16 acres). In one mountain farm, where the sole crop is bamboo, an older woman said the village was part of an agricultural collective until the 1970s and received subsidies in the form of grains. Now the subsidies are gone and they rely on harvested bamboo -- which sells for RMB 1.2 (USD 0.15) per piece and brings each family only a few thousand RMB (less than USD 500) per year -- and outside jobs.

¶8. (U) The elimination of China's agricultural tax in 2004 has helped Qingyuan's farmers, but it was only a small part of their overall expenses. On the other side of the equation, local governments are now without an important source of revenue. In some cases, they have responded with creative accounting: residents in one Qingyuan village said their township government imposed a RMB 10 (USD 1.25) monthly "fee" on every person in the village soon after the agricultural tax was eliminated. Villagers were more

pleased with a recent reduction in school fees from approximately RMB 200 (USD 25) to RMB 50 (USD 6.26) per student per semester. For families with two children -- and many of the rural families do take advantage of their exemption from the one-child policy -- the school fees were a significant burden.

Public Utilities: A Mixed Blessing

¶19. (U) Many rural communities in Qingyuan have access to public utilities such as electricity and are becoming reliant on goods such as gasoline and propane. Though villages benefit greatly from these goods, they are forced to maintain a higher level of income and are also vulnerable to shifts in prices. All of the villages in Qingyuan's countryside that were accessible by road had electricity, and some of the residences in these villages had motorcycles and basic appliances such as televisions and rice cookers. Most villages, unless they were located close to cities, relied on water wells. In one interesting case, a village near Qingcheng city told us that the city provides them with access to its water supply. In return, however, the city has been dumping sewage into the village's ponds.

¶110. (U) Prices for public utilities in Guangdong have been rising during the last year, including a recent hike in the cost of electricity. The government, under pressure from refineries, has lifted price controls on gasoline. With income that falls well below that of their urban counterparts, villagers are hit particularly hard by these increases. In mountain villages, where less land is arable and they do not farm their own food, the cost of staples such as rice and vegetables are a heavy burden. For those villagers that have sought employment in the cities and are sending money home, rising rents and public utility costs in the cities are serious hardships.

Land Sales: Source of Hope and Frustration

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¶111. (U) Though agriculture may no longer be profitable for many villages, their land has become an important source of wealth. It was rare that we met a villager who did not know how much his land was worth, or have an opinion about the price. Land compensation has become a contentious issue in China, and China's leaders are concerned about its potential for unrest. Guangdong was the site of several significant rural protests in late 2005 and early 2006, in part because of disputes over land compensation and usage (see reftels B, C, D). Nevertheless, these incidents are typically isolated, based on grievances with local officials, and thus far there appears to be no sign of a large-scale, coordinated rural movement on land compensation issues.

¶112. (U) Negotiations over land prices are largely conducted behind closed doors, with the township governments apparently setting the price. We met a number of farmers who criticized their village leaders for selling land at a price that was too low and not consulting with village residents first. Some villages appear to be more transparent than others, holding meetings to discuss sales terms and prices. Regardless, a village's approval of a land price is largely a formality. Indeed, one village leader told us the township government sets the price and his job is to convince the village residents to accept it.

¶113. (U) The going rate for one mu (0.16 acres) of land in the flat agricultural areas in southern Qingyuan is roughly RMB 22,000 (USD 2,752). After the township government buys the land from the village, it turns around and sells it to a developer. It is not clear what prices Qingyuan townships are charging developers, but this transaction certainly opens the possibility of corruption. The developer must

then level the land and build roads, drainage, and power lines, before selling it to an investor. In one industrial park outside of Qingcheng, companies could buy land for approximately RMB 70,000-80,000 (USD 8,757-10,008) per mu. Thus the developer earns approximately RMB 50,000 (USD 6,255) per mu in the transaction, minus the costs of preparing the site. Villagers are understandably suspicious of collusion between local governments and developers in these deals. However, villagers are not without their own schemes: villagers who have moved to cities will sometimes bribe local officials to change their household registration (hukou) back to the village in order to receive the land compensation.

¶14. (U) Despite resentment over prices and corruption, villagers generally see land sales as an excellent way to finance their ultimate goal: a new house. The cost of a house in Qingyuan is approximately RMB 40,000 (USD 5,000). By selling their land, a family can in some cases collect half that amount overnight. In addition, the factories that sprout up on the land provide new jobs. Despite these benefits, not all villagers are eager to give up their land, which not only has sentimental value but is a safety net in difficult years. As a result, some villages have opted to lease all or part of their land, instead of selling it outright.

Blaming the Government

¶15. (U) Qingyuan villagers generally have a skeptical view of government, particularly local officials. Some said that even village leaders, who are elected democratically, cannot be counted on to serve the village interest. According to one man, "the position corrupts whoever takes it." The central government was rarely the target of criticism, however. Indeed, one man said that the central government is on the right track, but the local officials are making a mess of things. Another commented that Chinese officials obtain promotions by bribery and personal connections, whereas in America a citizen can rise to governor on merit alone. (Interestingly, he was not aware that Econoff was from the United States when he said this). Villagers also said that officials during the era of Mao Zedong were more concerned about the well-being of farmers than officials today. Nevertheless, whenever we asked whether they would

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prefer to go back to life in the 1950s and 1960s, the answer was always no.

¶16. (U) Only some of the farmers had heard of the "New Socialist Countryside" campaign, which was launched by the central government in 2006 to improve infrastructure and social services in rural areas. Among those who had heard of the term, none said they have seen any initiatives associated with it.

Comment: The Goal Posts Have Shifted

¶17. (SBU) Qingyuan's rural villages are fortunate because the prefecture's industrial boom has brought jobs close by, and -- at least in the case of villages in the south where much of the development is taking place -- created a real-estate market for their land. Guangdong's leaders are fortunate that these factory and construction jobs have come at a time when agricultural prices and subsidies are falling. If Qingyuan's factories depart for cheaper locales, however, many of Qingyuan's villagers -- without jobs and without their farmland -- will be forced to join China's vast migrant worker population and look further afield for work.

¶18. (SBU) The source of discontent in rural Qingyuan is no longer the hardship of poverty, but rather land prices and

the corruption of local officials. Recent village protests in Guangdong over land compensation came about because of a lack of transparency in decisions determining compensation and land usage. Nevertheless, such protests have thus far been isolated incidents, and show no sign of a linked, coordinated movement.

¶119. (SBU) In addition, because villagers are more aware than ever of how their urban counterparts are living, their expectations have risen accordingly. Their increasing reliance on the trappings of city life, including public utilities and automobiles, make them vulnerable to rising prices. As a result, officials are no doubt aware that urban policy no longer stops at the city edge, but ripples throughout China's vast countryside as well.

¶120. (SBU) One important key to success -- a university education -- is still out of the question for the vast majority of rural children because of the cost. Only once did we hear of a village child going to university, and he came back after one week because it was too expensive. Nevertheless, Qingyuan's rural residents seem determined to break that barrier as well. One 13-year old girl from a village in rural Qingyuan told us that she was intent on studying software at university -- her uncle told her that is where the money is.

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